December 17, 2009

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., NW
Washington DC 20551

Docket No. R-1366

I would like to comment on the above mentioned proposed rule relating to yield spread premium funds that will be further referenced in this comment as "YSP".

I have been in residential mortgage lending for the past 28 years. I have always had the consumer's best interest in mind when originating a mortgage loan for them. During this tenure, I have originated secondary mortgage loans in banks, mortgage banking firms in various states and for the past thirteen years for my own company, a mortgage broker/banking firm. You need to read this entire comment for the welfare of Main Street as well as our country's economy.

First it is important to realize what YSP is and is not. YSP are funds that are used to allow the consumer to structure the necessary funds that will be required to close their mortgage transaction. A borrower can choose a to take an interest rate that does not have an origination fee and save that money or they can buy down the rate and pay origination and discount fees. The choice is the consumer's. If they choose to finance a greater amount of their title and lender fees, they can choose a bit higher rate and close with even less money out of their pocket. The rate is amortized usually over a 30yr. period of time increasing their monthly payment a relatively small amount compared with the higher additional funds that they would have to pay out of their pocket. This is one way YSP is used.

A second way YSP is used is for lenders to compensate mortgage brokers who originate loans for their portfolio. There is a cost associated with originating a mortgage loan. Competition among loan originators keeps costs and interest rates competitive to the consumer whether they work in a retail bank or as an originator for a mortgage broker. YSP income is one way to insure competition in the mortgage industry. There are many areas, especially rural areas where consumers would not be able to have face to face interaction in originating their mortgage loan if it were not for the mortgage broker. These entities originate the loan for the consumer and operate as a wholesale channel for the larger lenders not physically located in the area. The lender pays the broker for their services through YSP. The lender underwrites and funds the loan for the consumer .based on the choices the consumer has made on their loan The lender saves money by not having a physical office and the broker is able to make a living with YSP income which in turn is used for payroll of their employees as well as other operating expenses.

YSP is not evil as it has been made out to be by people who do not understand what YSP is or how it is used in the lending industry.

We have seen many regulation changes recently that do not take into account the ramifications of the regulation changes on the consumer nor the economy as a whole. An example would be the new Good Faith Estimate. Although it shows all the costs on a mortgage transaction, it does not show the consumer if the seller or lender are paying costs for them nor does it show the down payment and what the consumer really wants to know which is how much money do I have to pay to close my mortgage loan transaction?

If YSP is eliminated, let's consider the ramifications. First, more money would be needed from the consumer to close their mortgage loan. Combine this with recently enacted increased down payment requirements and you will see a decrease in home purchasing and lending. Foreclosed homes would not be purchased and would be left on the market only to deteriorate. There would be an increase in foreclosures when consumers have to relocate and cannot sell their home. A decrease in lending would mean less income generated for banks already in financial trouble, lenders and mortgage brokers. The lenders' wholesale channel of lending would be eliminated as well as mortgage brokers throughout the country would be forced to shut their doors resulting in massive layoffs. Add to this increased cost due to less competition along with the inability to get loans originated due to a smaller loan origination work force. This would be a nightmare for our economy.

Please seriously consider the trickle down effect of what is being considered in Docket R-1366. I would be willing to testify before any committee who requires further explanation regarding YSP compensation. I will have to close my company should YSP income be eliminated.

Thank you for the opportunity to comment on this most important issue for both consumers and our country.

Regards,

Michele Y. Gibson

Michele Y. Gibson
President

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